

# TAX GUIDE

## for home sales



### **TAX FREE** home sale

The tax law allows the majority of taxpayers who sell their homes to enjoy 100% tax-free profit from the sale.

If you have owned and used your home as your principal residence for at least two of the five years preceding the sale, you may exclude from income tax up to \$250,000 of profit if you're single or up to \$500,000 if you're married filing jointly. Generally, the exclusion may be used only once every two years.

The law provides that married individuals may exclude up to \$500,000 of profits if:

- either spouse owned the home for at least two of the five years before the sale,
- both spouses used the home as a principal residence for at least two of the five years before the sale, and
- neither spouse is ineligible for the exclusion because of the once-every-two-year limit. If one spouse cannot use the exclusion because of the once-every-two-year rule, the other spouse may still claim the exclusion if he or she qualifies. However, the exclusion then cannot exceed \$250,000.



### **MEET** the requirements

The law does contain some relief for those taxpayers who cannot meet the ownership and use rules or who have already excluded gain on a home sale within the two-year limit. If the failure to meet either rule is due to a job change, health problems, or certain other unforeseen circumstances, a partial exclusion may be available. The partial exclusion is calculated based on the fraction of the two years that the requirements were met.

### **KEEP GOOD** records

The exclusion rules are good news for most taxpayers. Not only will most home sales not be subject to tax whether there is a replacement home purchased or not, the need for recordkeeping may be lessened for many taxpayers. However, homeowners with very large profits locked in their homes could face a tax.

Because home prices can appreciate significantly over a period of years, taxpayers cannot be certain that their gain in a future home sale will always be at, or under, the exclusion limit. For this reason, it is advisable to maintain good records of home costs and improvements in order to verify the basis of the home when it is sold. Good records will also be necessary if an audit requires you to document your basis in a home sale.

## MORE ABOUT home sales

► The definition of “principal residence” includes more than the single family structure. House trailers, mobile homes, houseboats, condominiums, cooperative apartments, duplexes, and even boats that have cooking, sleeping, and bathroom facilities can all qualify if they are used as a principal residence.

► If the gain on a home sale exceeds the \$250,000/\$500,000 exclusion amounts, it will be taxed as a capital gain. The gain will be treated as long-term gain if you owned your home for more than 12 months.

► In your recordkeeping, be aware that home repairs do not increase your tax basis in a home, but capital improvements do. Typical repairs include such things as painting, cleaning the furnace, refinishing floors, etc. Examples of improvements include substantial landscaping or remodeling the kitchen or other rooms.



► The exclusion of gain can be applied to the sale of vacant land adjacent to your home which you used as part of your principal residence. The home must be sold within two years before or after the land sale.

► If you sell a home used partly for business, you will pay tax on gain to the extent of depreciation claimed after May 6, 1997, but you can exclude any additional gain up to the maximum exclusion allowed. If your home office is in a separate building from your home, it will not qualify for the exclusion.

► Among the events considered “unforeseen circumstances” that may qualify your sale for partial gain exclusion are the following:

- Your home is damaged by a disaster, act of war, or terrorism.
- You are transferred or lose your job.
- You or a family member must move for health reasons.
- You get a legal separation or divorce.
- You can't afford the mortgage payments due to a change in employment status.
- You have to sell because of multiple births from the same pregnancy.

*If you'd like more information or assistance with tax matters related to buying or selling a home, contact our office. We're here to help.*

**TULSA  
TAX COACH**

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